

Summary of Material Weaknesses, Non-Conformances, and Corrective Action Plans

The following tables summarize the two material weaknesses and two non-conformances identified through the Department's FY 2006 assessment of the effectiveness of internal controls and financial management systems. Details on each material weakness and non-conformance are provided after the tables. Associated Corrective Action Plans are available in Part IV of this document.

| FMFIA Section 2 Program Material Weakness | First Identified | Previous Corrective Action Target | Current Corrective Action Target |
|--|------------------|--------------------------------------|-------------------------------------|
| Prison Crowding | FY 2006 | Not Applicable | September 2012 |

| OMB A-123, Appendix A Financial Reporting Material Weakness | First Identified | Previous Corrective Action Target | Current Corrective Action Target |
|---|---|--------------------------------------|-------------------------------------|
| Accounting and Financial Reporting Procedures | FY 2002 (previously reported under FMFIA Section 4) | FY 2006 | September 2007 |

| FMFIA Section 4 Financial Management Systems Non-Conformances | First Identified | Previous Corrective Action Target | Current Corrective Action Target |
|--|------------------|--------------------------------------|-------------------------------------|
| General Controls Over Information Systems Supporting Financial Processes | FY 2004 | FY 2006 | September 2007 |
| Integrated Financial Management System | FY 2001 | Ongoing | September 2012 |

Program Material Weakness and Corrective Actions – Prison Crowding

As of September 30, 2006, the BOP crowding rate at facilities housing federal inmates was 36 percent over the rated capacity. To date, the BOP continues to manage the growing federal inmate population by contracting with the private sector and using State and local facilities for certain groups of low security inmates, expanding existing institutions (where programmatically appropriate and cost effective to do so), and building new facilities. Effective use of these approaches will allow BOP to keep pace with the growing inmate population and gradually reduce the crowding rate, thereby ensuring safe and secure operations in facilities housing federal inmates.

To address this material weakness, BOP will increase the number of federal inmate beds to keep pace with projected increases in the inmate population. A formal corrective action plan has been developed to meet targeted goals that includes expanding existing institutions, acquiring surplus properties for conversion to correctional facilities, constructing new institutions, utilizing contract facilities, and exploring alternative options of confinement for appropriate cases. The BOP plans to validate progress on construction projects at new and existing facilities via on-site inspections or by reviewing monthly construction progress reports.

Financial Reporting Material Weakness and Corrective Actions – Accounting and Financial Reporting Procedures

In FY 2006, the Department made progress in correcting previously reported accounting standards compliance and financial reporting deficiencies. While progress has been made, the Department's assessment of internal control over financial reporting identified that deficiencies still exist in these areas. Specifically, the

assessment identified reportable conditions in the Department's Procurement and Financial Reporting business processes. In addition, the assessment identified control deficiencies in other key business processes, such as Revenue, Treasury, and Grants Management. Individually, the reportable conditions and deficiencies are not significant enough to be categorized as material weaknesses. Collectively, however, management believes these control deficiencies, coupled with the risks to financial reporting resulting from the Department's information systems non-conformances discussed in the next section, represent a material weakness.

The Department and components are remediating the reportable conditions and control deficiencies through both formal component-developed corrective action plans and informal methods. In addition, the Department has increased its oversight of Departmental implementation of OMB Circular A-123, Appendix A; performed validation tests; and initiated actions to improve the overall assessment process by modifying existing internal review programs to test additional controls and expanding the monitoring program.

Financial Management Systems Non-Conformance and Corrective Actions – General Controls Over Information Systems Supporting Financial Processes

In FY 2006, the Department made progress in correcting prior year information technology-related deficiencies. In addition, the Department improved its information technology security stance. For example, all of the Department's systems have been certified and accredited, and the OIG has reported that the Department's certification and accreditation process complies with National Institute of Standards and Technology and Federal Information Processing standards.

While progress has been made, the Department's testing of general controls over information systems supporting financial processes continues to identify significant deficiencies related to access controls and the lack of baseline security configurations within several components. The most significant deficiencies involve management of accounts and system-level patches. Departmental and component management will accelerate efforts to remediate these and other information technology deficiencies through corrective action plans. In addition, the Department will intensify its monitoring of component progress in implementing corrective actions and validate such actions to ensure successful remediation of identified deficiencies.

Financial Management System Non-Conformance and Corrective Actions – Integrated Financial Management System

The Department continues to recognize the lack of a single integrated financial management system as a non-conformance. Financial systems performance and data availability for leadership decision-making is made more difficult because of the fragmented systems environment across the Department. Replacing the seven individual financial reporting systems with a standardized core financial system that meets federal standards is a priority of the Attorney General. In FY 2005, the Department's Unified Financial Management System (UFMS) Program Management Office gathered core financial requirements, awarded a commercial off-the-shelf system contract, and developed reengineered business processes. In FY 2006, the UFMS Program Management Office awarded a contract for integration and implementation services to support the deployment of UFMS. A phased-in implementation approach at selected Departmental components will begin in FY 2007, with the system being operational beginning in FY 2008. Department-wide implementation is expected to be complete in FY 2012.